

Commonwealth of Massachusetts
Department of Telecommunications and Energy
Fitchburg Gas and Electric Light Company
D.T.E. 03-09
Responses to Department's Third Set Of Information Requests

Request No. DTE 3-1:

Provide a copy of the Department's order granting a waiver to Unitil and FG&E to allow Unitil Resources, Inc. to use the shared services of Unitil Service Corp.

Response:

A copy of the Department's order in DPU/DTE 97-115/98-120 is attached. See pp. 13 to 15 for the discussion and analysis of the waiver request.

Person Responsible: Laurence M. Brock

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Request No. DTE 3-2:

Reference: Testimony of Laurence M. Brock, page 5, lines 1-8. Explain how the Enermetrix Exchange functions in a transparent manner.

Response:

The Enermetrix Exchange is said to function in a transparent manner because all suppliers are provided with the same information about customers load and are allowed to bid on that supply under the uniform, vendor-neutral rules of the Exchange, rather than conducting individual, confidential bilateral negotiations. The identities of the successful supplier (bidder) and the prospective buyer are revealed to each other only after the buyer chooses the bid and transaction terms that they desire to accept. In that sense, the Exchange acts as an auction where suppliers' bids, and the buyer's needs, are transparent to the Exchange.

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Request No. DTE 3-3:

During the years 1998 through 2002, how many times did the Enermetrix Board of Directors meet? How many of those meetings did the Unitil representative attend?

Response:

Generally, the Enermetrix Board of Directors met once a month. The meetings were more frequent in 2001 and 2002 as the Enermetrix Board was considering a merger proposal from CES International, Inc. of Atlanta, Georgia. Unitil generally attended all Board meetings.

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Request No. DTE 3-4:

Who purchased Until's interest in Enermetrix in April 2002?

Response:

Unitil sold its investment in Enermetrix back to Enermetrix just prior to the merger of Enermetrix with CES International, Inc. The actual closing and cash settlement date of the Enermetrix stock sale and redemption was April 9, 2002.

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Request No. DTE 3-5:

Describe the improved commercial terms for the use of the Enermetrix Software Network that Unitil obtained as a result of the sale of its ownership interest in Enermetrix.

Response:

Unitil (the "Company") sold its investment in Enermetrix in April 2002. In the transaction, Enermetrix repurchased all of the Enermetrix equity securities held by Unitil. As inducements to Unitil to sell its equity positions in Enermetrix, Unitil received cash payments and commercial considerations, including:

- 1)** A perpetual license (access to a buying seat) on the Enermetrix Network at the current annual maintenance fees.
- 2)** A software upgrade, including installation fees, to release 4.0 of the Enermetrix Network.
- 3)** Prior to any sale, transfer or termination of the Enermetrix Network by Enermetrix and its successors (including any acquirer of the Platform), a right of first refusal to purchase the Network at the price which is proposed for the transfer or sale.

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Request No. DTE 3-6:

Explain the functionality of the Enermetrix Software Network.

Response:

Enermetrix operates the Enermetrix.com Exchange (the "Exchange"), an internet transaction environment for executing competitive energy contracts between energy consumers and energy sellers. The Exchange is a rules-based, vendor-neutral platform operated by Enermetrix as the Exchange Manager. The Exchange is an Internet-based platform that allows Buying Members (brokers) to provide competitive energy procurement and delivery services to Commercial & Industrial end users (consumers) in deregulating U.S. electricity and natural gas markets. The Exchange provides Selling Members (energy suppliers) new, efficient channels to acquire customers.

The Exchange Manager oversees the conduct of the Exchange Members and is responsible for maintaining the accuracy of transaction-related information submitted to the Exchange. Buying Members pay fees to Enermetrix to license the Exchange technology and for system installation, integration and maintenance services. Buying Members receive fees from Enermetrix in the form of shared Exchange transaction fees for each transaction executed through the Exchange on behalf of an end user.

Enermetrix also has a subsidiary that acts as a Buying Member of the Exchange. The FG&E solicitations were transacted through this Enermetrix subsidiary.

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Request No. DTE 3-7:

Identify the companies within the Unitil system that use the Enermetrix Software Network.

Response:

Usource is a licensed Buying Member of the Enermetrix Exchange and uses the Exchange to solicit bids for its clients/customers as an energy broker. FG&E is not a client/customer of Usource.

FG&E used Enermetrix, in its function and capacity as a Buying Member of the Exchange, to manage its RFP solicitations for Default service and Enermetrix posted those orders on the Enermetrix Exchange for FG&E.

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Request No. DTE 3-8:

Explain the rights and responsibilities of a buy-side member of the Enermetrix Exchange.

Response:

Buying Members of the Exchange are comprised primarily of energy service companies and other aggregators. A Buying Member enters into an agreement with Enermetrix to utilize the Exchange to provide energy commodity procurement services to for C&I End Users. These End Users authorize the Buying Member to act as their procuring agent. A Buying Member collects and organizes certain information from an End User related to energy procurement requirements. A Buying Member then uses the Exchange to electronically present its End Users' requests for offers to supply energy ("Posts") to Selling Members. Next a Buying Member monitors offers in response to a Post, and ultimately accepts the offer that best matches the terms and conditions of the Post and that is in compliance with the End Users' instructions. Finally, the transaction is confirmed and documented online pursuant to a contract between the winning Selling Member and the End User. The winning Selling Member pays a transaction fee directly to the Exchange Manager. Then the Exchange Manager settles the fees shared with the Buying Member.

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Request No. DTE 3-9:

Provide a copy of *Opinions of the Accounting Principles Board No. 18* (New York: AICPA, 1971).

Response:

A copy of *Opinions of the Accounting Principles Board No. 18* (New York: AICPA, 1971) is included as Attachment DTE 3-9.

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Request No. DTE 3-10:

Provide a copy of Financial Accounting Standards Board Interpretation No. 35 "Criteria for Applying the Equity Method of Accounting for Investments in Common Stock - and Interpretation of APB Opinion No. 18."

Response:

A copy of Financial Accounting Standards Board Interpretation No. 35 "Criteria for Applying the Equity Method of Accounting for Investments in Common Stock - and Interpretation of APB Opinion No. 18" is included as Attachment DTE 3-10.

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Request No. DTE 3-11:

Provide a copy of all writings from Grant Thornton LLP concerning Unitil's accounting treatment of Unitil's investment in Enermetrix.

Response:

There were no written documents delivered directly to the Company concerning the Company's accounting treatment of its investment in Enermetrix. Grant Thornton reviewed the Company's accounting for its investment in Enermetrix on a quarterly basis for interim reporting and issued an opinion on the Company audited financial statements every year. The first year of the Company's investment in Enermetrix would have been 1999 when Unitil invested in the Series B preferred stock financing round in March and the Series C preferred stock financing round in November. Each year, Grant Thornton reviewed the Company's accounting for its investment in Enermetrix and each year Grant Thornton discussed the results of its annual audit with the Audit Committee of the Unitil Board of Directors. Each year, Grant Thornton attested to the Company's compliance with Generally Accepted Accounting Principles in its accounting for the Enermetrix investment.

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Request No. DTE 3-12:

Provide a copy of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

Response:

A copy of Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities" is included as Attachment DTE 3-12.

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Request No. DTE 3-13:

Provide detail on the calculation of the non-cash charge of \$3.7 million by Unitil in the fourth quarter 2001.

Response:

The Company had a book "basis" in the investment of \$5.5 million prior to the charge for the investment write-down. The Company estimated the value of the Enermetrix investment had declined to approximately \$1.8 million and recorded the write-down of \$3.7 million in the fourth quarter of 2001.

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Request No. DTE 3-14:

Specify the accounting entry used by Unitil for the \$3.7 million write-down of its investment in Enermetrix.

Response:

Account Name	Debit	Credit
Non –Operating Expense	3,636,364	
Investments		3,636,364
Deferred Taxes Refundable	1,236,364	
Income Tax Provision		1,236,364

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Request No. DTE 3-15

Explain why Unitil was allowed two seats on the Enermetrix Board of Directors during 1998 and 1999, rather than just one seat.

Response:

In the early stages of the development of Enermetrix, there was a desire to balance the representation of the company's founding principals and the company's investors. Six Board seats were initially established; 2 for the principals, 2 from Duquesne and 2 from Unitil. Also, there was a desire expressed by the principals to have 2 directors from each of Unitil and DQE to expand the input to the decisions needed to be made in such a small company at the time.

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